

BOND RATINGS

What is a Municipal Bond Rating?

A Municipal Bond Rating is a measure of the credit worthiness of a city, town or state. It is similar to credit ratings for individuals.

Why is it important?

- **It affects the interest rates that we pay.** A bond rating review is required when the town issues debt for capital projects. Our debt is issued in the form of Municipal Bonds. We are anticipating that it will be necessary to use borrowing as a source of funding for some of the town's capital needs, so we have a vested interest in getting a competitive rate. Investors who buy our bonds base the interest rate that we are charged on the bond rating that we have earned. The better our bond rating, the lower the interest rate that we are charged.
- **It tells us something about our financial condition and our financial management.** Standard & Poors and Moody's are qualified to review our financial management practices and can make a judgment about the town that is very valuable. They review cities and towns all over the Commonwealth and across the United States. They have developed standardized ways to measure the fiscal health of any community regardless of regional differences. An opportunistic community will look forward to the criticisms as well as the praise in the rating reports and see the opportunities for improvement.
- **It tells others about our financial condition and our financial management.** The bond rating conveys a lot of information in a way that is universally understood to many stake holders.

What is Westford's bond rating?

Our most recent rating review was completed on May 14, 2013. Moody's has given Westford a rating of Aa2, Standard & Poors a little higher rating of AA+. These ratings are considered High Grade investments.

How does our rating compare to communities in our Market Basket?

Westford's rating is right in line with other towns that we consider to be our Market Basket. According to the Department of Revenue data bank, the lowest Moody's rating among communities in our market basket is an Aa3 and the highest is Aaa. The lowest S&P rating is A+ and the highest is AAA. We have a little room for improvement, but our rating is very respectable among our peers. (See the rating scale poster for reference).

What practical steps can we take to improve our bond rating?

- Increase reserves
- Develop and adopt formalized Financial Management Policies
- Identify funding sources as part of the capital planning process
- Balance capital funding to some degree through the use of planned debt exclusions
- Develop a plan and begin funding OPEB
- Restructure our budget process to generate and use less "free cash"

The Rating Report

Rating Agency Report Findings Summarized

Moody's

"The Aa2 rating reflects the town's satisfactory financial position, stable residential tax base with above average wealth levels and manageable debt burden with rapid amortization."

Strengths

Stable tax base with above average wealth levels

History of debt exclusions

Challenges

Rising long term costs related to employee benefits

Town annually appropriates free cash to supplement budget

What could make the rating go up?

- Trend of operating surpluses with limited use of reserve appropriations
- Increase in reserves net of MSBA grant
- Adoption of formalized financial policies
- History of adherence to formalized policies

What could make the rating go down?

- Decline in reserves
- Significant increase in debt burden without exclusions from Prop 2 ½
- Erosion of tax base through valuation declines

Standard & Poors

"The stable outlook reflects our expectation that Westford will maintain a very strong reserve position. The local economy is very stable and the town's wealth & household incomes are among the highest in the commonwealth. These strengths should allow property tax collections to remain very strong. The town's manageable debt burden and capital needs also provide rating stability."

Strengths

- Location near diverse employment centers throughout the Boston metropolitan statistical area
- Very strong household incomes w/ median household effective buying income at 222% of the national level
- Extremely strong market value per-capita ratios;
- Good & consistent financial position partly due to experienced management & its strong focus on multiyear planning
- Low debt burden & above average amortization schedule

Challenges

- OPEB & Middlesex Retirement unfunded liabilities present an increasing burden on available revenues
- The town has not adopted formalized financial management policies
- Funding sources should be identified as part of the capital planning process